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EAP DAS MARCIEL; MCC FOR THRESHOLD PROGRAM UNIT; EEB/IFD/ODF; USAID PDLP/JLANG;
USTR EBRYAN; TREASURY BPELTON

E.O. 12958: N/A

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SUBJECT: TIMOR-LESTE FORMALLY REQUESTS MCC THRESHOLD PROGRAM

¶1. Summary. Embassy Dili received on January 27, 2009, a letter (see below) from Prime Minister Xanana Gusmao to John J. Danilovich, CEO of the Millennium Challenge Corporation (MCC). The Prime Minister accepts the offer of eligibility under the MCC's Threshold Program in response to a Danilovich letter of December 20, 2008. The Prime Minister designates Dr. Joao Saldanha as the Timorese government's point of contact for the Threshold Program. Embassy and USAID Mission Dili representatives will meet with Dr. Saldanha and his team on January 30 to initiate work towards an MCC Threshold Program proposal. Prime Minister Gusmao also asks that the MCC again review Timor's eligibility for an MCC Compact at the next meeting of its Board of Directors. End summary.

¶2. The full text of PM Gusmao letter follows.

Begin text (quoted verbatim).

His Excellency John J. Danilovich
Chief Executive Officer
Millennium Challenge Corporation
January 23, 2009

Ambassador Danilovich:

This is to acknowledge that Timor-Leste government has received your letter dated December 20, 2008 regarding Timor-Leste's eligibility for Threshold Program. As you aware, Timor-Leste have completed compact submission for MCC in 2008 which was comprised of Constraint Analysis, Public Consultations, two concept papers (on roads and vocational education) and a mini concept paper for Strengthening Institutions to Fight Corruption. A documentation of the new policy reforms was also reported to the MCC in 2008.

Although we were disappointed for not being re-selected as compact eligible country, we are happy to accept the Threshold Program. For coordination of the Threshold Program and the principal liaison with the MCC, Mr. Joao Mariano Saldanha, PHD will continue to the government's Point of Contact within the Ministry of Finance.

Finally, based on the results of compact development and Policy Improvement Plans (PIPs) last year, we would like to propose to the MCC Board to reconsider Timor-Leste's eligibility for compact in its forthcoming meeting. However, signing of compact assistance is subject to Timor-Leste passing of weak indictors.

Thank you very much and looking forward for another productive year of cooperation.

Sincerely,

/s/

Xanana Gusmao

Prime Minister
Democratic Republic of Timor Leste

End text of letter.

¶3. Comment. One concern facing Dr. Saldanha and his colleagues is their loss of policy leverage resulting from the MCC decision not to renew Timor's Compact eligibility in December 2008. Last year, the Minister of Finance and her MCC team used the "MCC effect" - inter alia the promise of a large U.S. investment as long as Timorese policy and performance improved - to press and badger other ministers and members of parliament to make and support policy advancements, from the creation of an anti-corruption commission to accepting the principle of competitive international bidding for major procurement projects. To recover some leverage and encourage full and enthusiastic participation in the development of a Threshold proposal, Prime Minister Gusmao included in the last paragraph of his letter a request that the MCC Board again review Timor's eligibility for Compact status. As stated in his letter, the Prime Minister recognizes that Timor cannot receive compact eligibility again until it turns all the necessary indicators green. Accordingly, in conversation with the ambassador, Dr. Saldanha asked whether, even as work towards a Threshold Program begins, the Board could soon issue a statement that reaffirms the principle that Timor can again be eligible for Compact status, and once eligibility is again secured, that negotiations towards a compact will resume promptly.

¶4. Both the Embassy and USAID Mission in Dili will quickly engage Dr. Saldanha on a Threshold Program proposal. At this point of transition from working with the MCC Compact Development team, to supporting the efforts of the MCC Threshold

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Program unit in Timor-Leste, Embassy Dili would like to recognize and thank Vice President John Hewko and his team for the tremendous energy, commitment and creativity they brought to their work with Timor-Leste. We were very grateful throughout a challenging year for their consistently prompt and constructive assistance, wisdom and counsel. Moreover, the enthusiasm and dedication that Darius Nassiry, Richard Day and many others brought to their cooperation with the Timorese will have our long-lasting admiration. The labors of the MCC Compact Development Team built a great reservoir of confidence, trust and a spirit of partnership among the Minister of Finance and her MCC squad, and made Timor's difficult decision to support a transition to a Threshold Program possible. End comment.
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